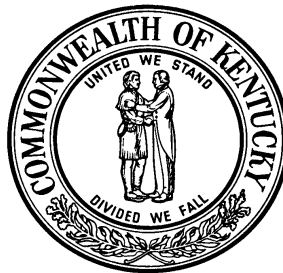


**REPORT OF THE AUDIT OF THE  
FORMER ADAIR COUNTY  
CLERK**

**For The Period  
January 1, 2006 Through November 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
[www.auditor.ky.gov](http://www.auditor.ky.gov)**

**105 SEA HERO ROAD, SUITE 2  
FRANKFORT, KY 40601-5404  
TELEPHONE (502) 573-0050  
FACSIMILE (502) 573-0067**



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE FORMER ADAIR COUNTY CLERK**

**For The Period  
January 1, 2006 Through November 31, 2006**

The Auditor of Public Accounts has completed the former Adair County Clerk's audit for the period January 1, 2006 through November 30, 2006. Based upon the audit work performed, the financial statement presents fairly in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

#### **Report Comments:**

- The Former County Clerk Had A Deficit Of \$14,544 In Her Official Account
- The Former County Clerk Should Have Properly Accounted For All Accounts Receivable
- The Former County Clerk Should Have Deposited All Receipts In Her Official Account
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

#### **Deposits:**

The former County Clerk's deposits were insured and collateralized by bank securities.



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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Ann Melton, Adair County Judge/Executive and  
Former Adair County Clerk  
The Honorable Sheila Blair, Adair County Clerk  
Members of the Adair County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former County Clerk of Adair County, Kentucky, for the period January 1, 2006 through November 30, 2006. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former County Clerk for the period ended November 30, 2006, in conformity with the regulatory basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole. The schedule of excess of liabilities over assets is presented for purposes of additional analysis and is not a required part of the financial statement. Such information has been subjected to auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated in all material respects in relation to the financial statement taken as a whole.



The Honorable Ann Melton, Adair County Judge/Executive and  
Former Adair County Clerk  
The Honorable Sheila Blair, Adair County Clerk  
Members of the Adair County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated June 1, 2007 on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Former County Clerk Had A Deficit Of \$14,544 In Her Official Account
- The Former County Clerk Should Have Properly Accounted For All Accounts Receivable
- The Former County Clerk Should Have Deposited All Receipts In Her Official Account
- The Former County Clerk's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Adair County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen  
Auditor of Public Accounts

June 1, 2007



ADAIR COUNTY  
ANN MELTON, FORMER COUNTY CLERK  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period January 1, 2006 Through November 30, 2006

Revenues

State Grants	\$	2,322
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State Fees For Services		6,202
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Fiscal Court		2,978
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Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$ 636,215	
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Usage Tax	1,782,094	
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Tangible Personal Property Tax	1,031,527	
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Other-

Marriage Licenses	4,796	
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Dog Licenses	2,090	
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Deed Transfer Tax	47,998	
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Delinquent Tax	50,132	
----------------	--------	--

Lien Fees	5,041	3,559,893
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Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	22,226	
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Real Estate Mortgages	31,176	
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Chattel Mortgages and Financing Statements	54,469	
--	--------	--

Powers of Attorney	2,080	
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Bail Bonds	2,964	
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All Other Recordings	22,031	
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Charges for Other Services-

Title Applications	1,612	136,558
--------------------	-------	---------

Other:

Miscellaneous	3,737	
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Overage/Shortage	(793)	2,944
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Interest Earned		4,548
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Total Revenues		3,715,445
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The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY  
 ANN MELTON, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2006 Through November 30, 2006  
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 518,016

Usage Tax 1,725,570

Tangible Personal Property Tax 365,681

Licenses, Taxes, and Fees-

Delinquent Tax 6,249

Legal Process Tax 16,530

Affordable Housing 8,628 \$ 2,640,674

Payments to Fiscal Court:

Tangible Personal Property Tax 79,191

Delinquent Tax 5,656

Deed Transfer Tax 41,862

Dog Licenses 2,090 128,799

Payments to Other Districts:

Tangible Personal Property Tax 545,401

Delinquent Tax 25,404 570,805

Payments to Sheriff 904

Payments to County Attorney 6,538

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries 152,785

Part-Time Salaries 7,258

Employee Benefits-

Employer's Share Social Security 15,727

Materials and Supplies-

Office Supplies 53

Other Charges-

Conventions and Travel 6,134

Dues 400

Office Cleaning 1,375

Printing and Binding 3,445

Postage 279

Refunds 2,225

Miscellaneous 544

Office Equipment 2,935

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY  
 ANN MELTON, FORMER COUNTY CLERK  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS  
 For The Period January 1, 2006 Through November 30, 2006  
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-		
Libraries and Archives	\$ 2,322	\$ 195,482
Debt Service:		
Lease Purchases		5,197
Total Expenditures		\$ 3,548,399
Net Revenues		167,046
Less: Statutory Maximum		63,563
Excess Fees		103,483
Less: Expense Allowance	3,300	
Training Incentive Benefit	3,302	6,602
Excess Fees Due County for 2006		96,881
Payment to Fiscal Court - February 13, 2007		70,000
Balance Due Fiscal Court at Completion of Audit		\$ 26,881

The accompanying notes are an integral part of this financial statement.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENT

November 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Clerk as determined by the audit. KRS 64.152 requires the County Clerk to settle excess fees with the fiscal court by March 15 each year.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting, revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive), at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Payments due other governmental entities for December tax and fee collections and payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2006  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last five months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Former County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County Clerk's deposits may not be returned. The former County Clerk did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of November 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$2,322. Funds totaling \$2,322 were expended during the year. The unexpended grant balance was \$0 as of November 30, 2006.

ADAIR COUNTY  
NOTES TO FINANCIAL STATEMENT  
November 30, 2006  
(Continued)

Note 5. Leases

The Clerk's office was committed to the following lease agreements as of November 30, 2006:

Item Purchased	Monthly Payment	Term Of Agreement	Ending Date	Principal Balance November 30, 2006
Copier	\$ 302	36 Months	08/01/09	\$ 9,362
Copier	\$ 279	36 Months	07/15/09	\$ 8,360

ADAIR COUNTY  
ANN MELTON, FORMER COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

For The Period January 1, 2006 Through November 30, 2006

Assets

Cash in Bank	\$ 165,217
Receivables	<u>51,209</u>
Total Assets	<u>216,426</u>

Liabilities

Paid Obligations:

Outstanding Checks	27,374
--------------------	--------

State Treasurer-

Motor Vehicle Licenses	\$ 10,095
Tangible Personal Property Tax	25,404
Legal Process Tax	1,401
Delinquent Tax	220
Affordable Housing	3,983

Adair County-

Tangible Personal Property Tax	5,342
Delinquent Tax	232
Deed Transfer Tax	6,577
Dog Licenses	190
Excess Fees - 2006	70,000

Payments To Other Districts

Tangible Personal Property Tax	
Library	1,755
Health	1,193
Extension	1,383
Ambulance	3,816
School	26,854
City	2,507

Delinquent Tax

Library	58
Health	42
Extension	43
Ambulance	74
School	667
Soil	12

ADAIR COUNTY  
ANN MELTON, FORMER COUNTY CLERK  
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS  
For The Period January 1, 2006 Through November 30, 2006  
(Continued)

Liabilities (Continued)

Sheriff-Delinquent Taxes	\$	50
County Attorney - Delinquent Taxes		252
Returned Checks		885
Deposit Error		12,576
Conference Expense		865
Election Certificates		30
Missing Inventory Items		195
Refunds		<u>14</u>
Total Paid Obligations		<u>\$ 176,715</u>
Unpaid Obligations:		
Additional Excess Fees Due		<u>26,881</u>
Total Unpaid Obligations		<u>26,881</u>
Total Liabilities		<u>230,970</u>
Total Fund Deficit as of November 30, 2006		<u><u>\$ (14,544)</u></u>



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

Honorable Ann Melton, Adair County Judge/Executive and  
Former Adair County Clerk  
The Honorable Sheila Blair, Adair County Clerk  
Members of the Adair County Fiscal Court

Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Adair County Clerk for the period January 1, 2006 through November 30, 2006, and have issued our report thereon dated June 1, 2007. The County Clerk's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Adair County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Former County Clerk's Office Lacked An Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Adair County Clerk's financial statement for the period January 1, 2006 through November 30, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Former County Clerk Had A Deficit Of \$14,544 In Her Official Account
- The Former County Clerk Should Have Properly Accounted For All Accounts Receivable
- The Former County Clerk Should Have Deposited All Receipts In Her Official Account

The former Adair County Clerk's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the former County Clerk's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Adair County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

June 1, 2007

## COMMENTS AND RECOMMENDATIONS



ADAIR COUNTY  
ANN MELTON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS

For The Period January 1, 2006 Through November 30, 2006

STATE LAWS AND REGULATIONS:

The Former County Clerk Had A Deficit Of \$14,544 In Her Official Account

Based on our audit, the Former County Clerk had deficit in her 2006 fee account in the amount of \$14,544. This deficit was the result of undeposited receipts of \$14,544. We recommend the former County Clerk deposit personal funds of \$14,544 to eliminate this deficit.

*Former County Clerk's Response: No Response.*

The Former County Clerk Should Have Properly Accounted For All Accounts Receivable

The former County Clerk allowed customers to charge for services rendered by the County Clerk's office. When a charge is made it is first put in the charge book and also posted to the daily checkout sheet as a total. The totals on the daily checkout sheet are then transmitted to the receipts ledger. When the auditor tried to compare the amounts on the ledger to the original charge book, it was discovered that numerous records were missing. Pages of the charge book were torn out and not accounted for. The former County Clerk should have maintained accurate records for all accounts receivable.

*Former County Clerk's Response: No Response.*

The Former County Clerk Should Have Deposited All Receipts In Her Official Account

During our audit we noted instances where the daily checkout sheet totals were more than the daily bank deposits made by the former County Clerk, reflecting undeposited receipts. The auditor also noted numerous daily checkout sheets in which the batched receipts were more than reported on the daily checkout sheets. To get an accurate amount of undeposited receipts, we compared daily checkout sheets to all daily bank deposits and recalculated them for the audit period. Based upon this comparison, we determined that undeposited receipts equaled \$14,544.

We recommend that the former County Clerk take appropriate measures to ensure that all public monies entrusted to her, based on the statutory authority of her office, be deposited into her official bank account intact.

*Former County Clerk's Response: I have checked the daily checkout sheets that were reported to me by the auditor to be incorrect and I agree that a limited amount of these records had mistakes on them. I investigated this situation and because of the many duties performed by everyone could not determine a logical reason for this. The bottom line is I as Clerk am responsible and I will pay to the Adair County Fiscal Court the amount of \$14,544.08 on or before the allotted time given to me by the State Auditor's Office.*

ADAIR COUNTY  
ANN MELTON, FORMER COUNTY CLERK  
COMMENTS AND RECOMMENDATIONS  
For The Period January 1, 2006 Through November 30, 2006  
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Former County Clerk's Office Lacks Adequate Segregation Of Duties

The former County Clerk's office had a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official had limited options for establishing an adequate segregation of duties. The following compensating controls could have been implemented to offset this internal control weakness:

- The former County Clerk could have periodically compared a daily bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. Any differences should have been reconciled. She could have documented this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former County Clerk could have compared the quarterly financial report to receipts and disbursements ledgers for accuracy. Any differences should have been reconciled. The former County Clerk could have documented this by initialing the quarterly financial report.
- The former County Clerk could have periodically compared invoices to payments. The former County Clerk could have documented this by initialing the invoices.
- The former County Clerk could have periodically compared the bank reconciliation to the balance in the checkbook. Any differences should have been reconciled. The former County Clerk could have documented this by initialing the bank reconciliation and the balance in the checkbook.

*Former County Clerk's Response: No Response.*



